

Filed on behalf of: Philip Morris Products, S.A.

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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

PHILIP MORRIS PRODUCTS, S.A.,
Petitioner,

v.

RAI STRATEGIC HOLDINGS, INC.,
Patent Owner.

Case IPR2020-01097
Patent 9,839,238

**PETITIONER'S REQUEST FOR REHEARING
OF DECISION DENYING INSTITUTION**

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I. Introduction

Petitioner Philip Morris Products, S.A., respectfully requests rehearing of the Board's Decision Denying Institution of *Inter Partes* Review (Paper 9, Jan. 19, 2021) ("Decision") and Precedential Opinion Panel review. The Board should grant rehearing and institute review.

On or around October 15, 2020, and well after the Petition was filed, the Board impermissibly, and without any public notice, drastically changed its rules governing institution of IPRs with concurrent ITC proceedings. Before that date, the Board uniformly recognized that the ITC cannot invalidate claims, and with the exception of one egregious case, refused to deny institution on *NHK/Fintiv* grounds. In fact, the Board instituted review over *NHK/Fintiv* arguments in over 35 cases involving concurrent ITC case, and denied only once. Ex. 1037 at 16-18.

But since that date, the Board has denied institution 21 straight times, up to and including this Decision. *Id.*; *see also* IPR2020-01197, -01239, -01240. The Board just broke its streak of denials with its sole institution. To obtain review, Petitioner in that case (the same Petitioner as here) **unconditionally** dropped all of its IPR-eligible invalidity defenses from the ITC case. IPR2020-01094, Paper 9 at 22 (Jan. 25, 2021) ("1094 Decision"). The Board has never announced that such drastic action is required for institution, but its record speaks for itself.

The Board's record shifted from 35-1 for petitioners to 1-21 because the Board apparently adopted—without notice or explanation—an unwritten rule that requires petitioners to drop their IPR-eligible defenses from pending ITC cases on or before institution. This unwritten rule eviscerated Congress's careful balancing

between competing interests as set forth in AIA. In particular, Congress intended respondents to be able to assert any and all invalidity defenses in the ITC until the Board issued its final written decision. 35 U.S.C. § 315(e)(2). The Board cannot amend § 315(e)(2) to require petitioners, as a condition of institution, to incur the effect of the estoppel by dropping all IPR-eligible grounds in the ITC proceeding. The Board certainly cannot do so without ever announcing that this is indeed a requirement. Further, and putting all of that aside, this panel was obligated to follow *Fintiv*, and it did not do so. *Fintiv* did not (and did not aspire to) promulgate any such new unwritten requirement for ITC proceedings.

Thus, the Board should vacate its Decision and institute review.

A. Background

Petitioner filed its IPR at a time when the Board routinely granted institution over *NHK/Fintiv* arguments regarding the ITC: the Board had **never**, not in three dozen cases, denied a diligently filed IPR because of a concurrent ITC proceeding. *See* Ex. 1037 at 16-18 (addendum, listing Board decisions). Petitioner did not proffer a conditional stipulation with its POPR because one did not seem necessary based on the overwhelming weight of previous PTAB decisions, especially in view of Petitioner's exceptional diligence in seeking IPR. Petitioner knows of no other instance where a petitioner challenged six patents at the PTAB in well under three months after the complaints were filed.

To explain, Patent Owner filed its complaints on April 9, 2020, asserting six patents against Petitioner in the EDVA, and three of those (including the '238 patent) in the ITC. Petitioner responded with IPRs (and a PGR) against all six

patents in rapid succession: three IPRs on May 8; this IPR and the '1094 on June 12; and two against the '542 patent on June 26, 2020. Meanwhile, the ITC proceeded at its usual breakneck pace: final invalidity contentions were served September 18, expert reports on October 5, pre-trial briefing was on December 22, 2020, and the evidentiary hearing began on January 25, 2021—all before the Board's due date for institution, despite Petitioner's extraordinary diligence.¹

Unlike here, the Board instituted the '1094 IPR petition filed on the same day, reasoning that unconditionally dropping all IPR-eligible defenses “has the same effect as the stipulation the petitioner provided in *Sotera*.” '1094 Decision at 22. That is only partially true and such stipulations are ill-suited for the ITC. Had Petitioner stipulated that it would drop any IPR-eligible grounds from the ITC upon institution, the parties would have expended extra effort briefing and arguing backup invalidity theories at the hearing in addition to the IPR-eligible grounds in

¹ ITC proceedings are unlike PTAB proceedings. In IPRs, for example, briefing and the evidentiary record are complete before oral argument. At the ITC, however, the hearing is where the parties establish the record that will support their focused substantive post-hearing briefs. After this evidentiary hearing, each party and the staff attorney submits 40,000 words of post-hearing substantive briefing based solely on the evidence admitted at the hearing. Ex. 1034 at 28-29. And before Completion of the Investigation, the parties submit petitions for review other additional briefing as required. *E.g.*, *Comcast Cable Commc'ns, LLC v. Rovi Guides, Inc.*, IPR2020-00800, Paper 10 at 13-14 (Oct. 22, 2020).

case the IPR was instituted. This would have injected even more duplication of effort and inefficiency into the process than in IPR2020-00919, where the Board denied institution despite Petitioner unconditionally dropping over two thirds of its IPR grounds. IPR2020-00919, Paper 7 at 4-5 (Sept. 18, 2020) (Reply); *Id.*, Paper 9 at 11-12 (Nov. 16, 2020) (“’919 Decision”).

The only way to truly minimize overlap is to **unconditionally drop all** IPR-eligible grounds from the ITC proceeding without waiting for an institution decision. *See* ’01094 IPR, Paper 7 at 7-8 (Nov. 25, 2020) (Petitioner dropping all IPR-eligible invalidity grounds). But asking a respondent to do so at the ITC is patently unreasonable. If the Board denies institution for any reason, the IPR-eligible art is gone. The art cannot be argued at the PTAB and it cannot be brought back in the ITC. Even if the Board institutes review, the respondent/petitioner will be left in an untenable position if the IPR-eligible art is by far the best prior art. A final written decision will not issue until well after the target date for completion of the investigation and issuance of an order forbidding importation of its product. The ITC will not remove or stay this order after claims are found unpatentable in a final written decision until all appeals are exhausted. *See* Ex. 1038 at 2-6 (Commission Order). As a result, petitioners must always go forward in the ITC with their best art (or close to it), regardless of any IPR, rather than risk receiving an order forbidding importation of its products.

It is even more unreasonable to expect petitioners to stipulate or drop invalidity grounds when the Board's unwritten rules change arbitrarily, capriciously, and without warning. When Petitioner filed this IPR, the Board

uniformly granted institution over *NHK/Fintiv* arguments regarding a parallel ITC case. Then, in October of 2020, the Board began denying cases. There is still no way for the public to know what, if anything, will meet the Board's new unwritten rules. To date, one case indicates that a requirement for IPR institution is the surrender of all IPR-eligible grounds at the ITC. *See* '1094 Decision. Such a requirement is contrary to law. And in any event, ITC respondents cannot afford to drop their best invalidity defenses, especially in the face of such uncertainty.

B. Legal Standard

A party seeking rehearing must identify the matters that the Board “misapprehended or overlooked.” 37 C.F.R. § 42.71(d). The Board reviews its Decision for an abuse of discretion, 37 C.F.R. § 42.71(c), which occurs when “a decision is based on an erroneous interpretation of law,” “represents an unreasonable judgment in weighing relevant factors” or the “the agency offers insufficient reasons for treating similar situations differently.” *In re Gartside*, 203 F.3d 1305, 1315-16 (Fed. Cir. 2000); *Consol. Bearings Co. v. United States*, 348 F.3d 997, 1007 (Fed. Cir. 2003); *Sand Revolution II v. Cont'l Intermodal Grp.-Trucking*, IPR2019-01393, Paper 24 at 4 (June 16, 2020).

II. The Decision Is Contrary to Law

The Board's Decision was an abuse of discretion because it relied on an erroneous interpretation of the law. Contrary to the Decision, the Director (and thus the Board) lacks the legal authority to deny institution based solely on a co-pending ITC case, especially one that has not even reached an Initial Determination.

Nothing in the statute gives the Director the authority to require respondents to drop all of their IPR-eligible defenses as a requirement to obtain IPR. In Congress's view, Article III courts applying the clear and convincing standard were not doing enough to rid the system of "bad patents" that "sometimes" "slip through." *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1353 (2018). Congress did **not** create the PTAB to incentivize patent owners to assert those "bad patents" in the ITC, where those bad patents cannot be invalidated at all.

And even if the AIA granted the Director (and the Board) the discretion to deny an IPR on that basis, the Decision was contrary to law because the Decision impermissibly treated similar situations differently without sufficient explanation.

A. The Director (and thus the Board) lacks the legal authority to deny institution based solely on a pending ITC case.

The AIA did not give the Director unfettered discretion with respect to parallel proceedings. Congress certainly did not grant the Director the power to impose a *de facto* requirement that petitioners sued in the ITC must drop all of their IPR-eligible defenses to obtain review.

Congress instead set forth a detailed framework balancing competing concerns. For example, Congress expressly granted the Director broad discretion regarding parallel USPTO proceedings.

[I]f another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the inter partes review or other proceeding or matter may proceed, including providing for stay, transfer, consolidation, or termination of any such matter or proceeding.

35 U.S.C. § 315(d). This makes sense. The Office may decide how best to determine the patentability of a patent concurrently challenged in multiple ways before the Office.

Congress also recognized that there may be parallel proceedings in district court, and carefully balanced competing concerns of efficiency, patent system integrity, and patent quality. For example, Congress limited overlapping parallel litigation between the PTAB and the courts with § 315(b)'s one-year bar. *Thryv, Inc. v. Click-to-Call Techs., LP*, 140 S. Ct. 1367, 1374-75 (2020) (“The purpose of § 315(b), all agree, is to minimize burdensome overlap between [IPR] and patent-infringement litigation.”); *Robert Bosch Tool Corp. v. SD3, LLC*, IPR2016-01753, Paper 15 at 11-12 (Mar. 22, 2017).

To be sure, the existence—and even the length—of the one-year bar was carefully negotiated in Congress to achieve the desired balance. *E.g.*, 157 Cong. Rec. S1326 (daily ed. Mar. 7, 2011) (Sen. Sessions) (citing the “time limit[] on starting an [IPR] when litigation is pending” as one of “many protections that were long sought by inventors and patent owners”); 157 Cong. Rec. S5429 (daily ed. Sept. 8, 2011) (Sen. Kyl) (recognizing defendants’ need for “a reasonable opportunity to identify and understand the patent claims that are relevant to the [district court] litigation” before having to file an IPR petition).

As part of that balancing, Congress guaranteed a defendant the ability to challenge validity in IPR even if an Article III court found that the same defendant failed to carry its burden under the higher clear-and-convincing standard, so long as the defendant satisfied the one-year bar. To do so, Congress eliminated the old

estoppel that precluded a requester (or its privies) from seeking or maintaining an *inter partes* reexamination once a district court entered a final judgment of not invalid. 35 U.S.C. § 317(b) (pre-AIA). Now, failure to prove invalidity by clear-and-convincing evidence at district court no longer precludes challenging patentability under the preponderance of evidence standard in IPR, so long as the one-year bar is satisfied.

Congress did not place **any** such limits on institution in view of ITC proceedings. No one-year bar, no ITC-to-PTAB estoppel, and no broad grant of power to stay or terminate as with other agency (USPTO) proceedings. This makes sense. District courts and the Office can invalidate claims, but the ITC cannot. Limiting IPRs in favor of ITC proceedings would have severely hindered Congress's goal of improving patent quality, as the ITC cannot invalidate claims. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2135 (2016) (“The purpose of [IPR] is not only to resolve patent-related disputes among parties, but also to protect the public's ‘paramount interest in seeing that patent monopolies ... are kept within their legitimate scope.’”).

“Congress didn't choose to pursue [those] known and readily available approach[es]” with respect to parallel ITC cases. *SAS Inst.*, 138 S. Ct. at 1356. To the contrary, Congress placed **no limit** on instituting (or maintaining) IPR in view of a concurrent ITC investigation. Congress's “choice to try something [else] must be given effect rather than disregarded.” *Id.* Congress contemplated that IPR and related ITC proceedings would proceed together and “knew how to draft the kind of statutory language that [the Director] seeks to read into” the AIA. *State Farm*

Fire & Cas. Co. v. United States ex rel. Rigsby, 137 S. Ct. 436, 443-44 (2016).

“[H]ad Congress intended to” grant the discretion this panel asserted in applying the *NHK/Fintiv* rule to an ITC proceeding, Congress “would have said so.” *Id.*; see also *SAS Inst.*, 138 S. Ct. at 1356.

Moreover, it would have made little sense for Congress to specifically direct how IPR and overlapping ITC proceedings should be managed “if, in truth, the Director enjoyed the discretion” to deny IPR petitions based on parallel proceedings. *SAS Inst.*, 138 S. Ct. at 1356. Rather, these provisions already account for administrative efficiency to the extent Congress deemed appropriate—by specifically authorizing IPR where the petition is timely under § 315(b) for parallel district court proceedings and **no limits for ITC proceedings**. Indeed, the only limit Congress placed on concurrent PTAB/ITC proceedings is the § 315(e)(2) estoppel, which requires institution: it restricts the defenses available to a petitioner in the ITC **after** an instituted IPR is completed. Congress enacted **no** restrictions going the other way, from the ITC to the PTAB.

Congress certainly did not grant the Director the power to impose the same or more severe restrictions on institution for parallel ITC proceedings compared to district court proceedings. As explained in the Background above, the Board seems to require petitioners sued in the ITC to serve a *Sotera*-style stipulation (that **increases** inefficiency) or unconditionally drop all IPR-eligible defenses. Here, Petitioner was exceptionally diligent and its petition was strong on the merits. The remaining *Fintiv* factors are beyond an ITC respondent's control. This is not what Congress envisioned or drafted in the statutes.

In summary, the Board (and Director) ignored the AIA's statutory framework, impermissibly substituting its judgment for Congress's. It denied a diligently filed and meritorious IPR petition in view of a parallel ITC case, and applied an unwritten *de facto* requirement that petitioners sued in the ITC must drop all IPR-eligible validity defenses. The Board should vacate its original Decision and institute this IPR on the merits.

B. The Decision was contrary to law because it impermissibly treated similar situations differently

At the time this Petition was filed, the Board had invariably instituted diligently filed IPRs despite a parallel ITC case, and with one exception, instituted IPR even if the petitioner was not diligent at all. Ex. 1037 at 16-18. Indeed, by October 15, 2020, the Board had instituted review 35 times despite a co-pending ITC case, and denied only one particularly egregious case. Ex. 1037 at 16-18; *Bio-Rad Labs., Inc. v. 10x Genomics, Inc.*, IPR2019-00567, Paper 23 at 26-29 (Aug. 8, 2019). Since then, the Board has denied all IPRs with concurrent ITC proceedings except the '1094 Decision, where Petitioner unconditionally dropped all of its IPR-eligible validity defenses. *See* Background section above.

The Board's unannounced, unreasoned, and abrupt departure from its previous decisions is contrary to law. Even where an "agency's discretion is unfettered at the outset, if it announces and follows—by rule or by settled course of adjudication—a general policy by which its exercise of discretion will be governed, an irrational departure from that policy (as opposed to an avowed alteration of it) could constitute action that must be overturned as 'arbitrary,

capricious, or an abuse of discretion' within the meaning of the Administrative Procedure Act." *McCarthy v. Merit Sys. Prot. Bd.*, 809 F.3d 1365, 1372 (Fed. Cir. 2016) (quoting *INS v. Yueh-Shaio Yang*, 519 U.S. 26, 32 (1996)).

Thus, when the Board "decides to depart significantly from its own precedent, it must confront the issue squarely and explain why the departure is reasonable,' the obvious goal being to avoid arbitrary action." *Thompson v. Barr*, 959 F.3d 476, 484 (1st Cir. 2020) (quoting *Davila-Bardales v. INS*, 27 F.3d 1, 5 (1st Cir. 1994)); *Verizon Tel. Cos. v. FCC*, 570 F.3d 294, 301 (D.C. Cir. 2009) (If an agency "changes course, it 'must supply a reasoned analysis' establishing that prior policies and standards are being deliberately changed.") (quoting *Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 57 (1983)). "[A]dministrative agencies must apply the same basic rules to all similarly situated applicants. An agency cannot merely flit serendipitously from case to case, like a bee buzzing from flower to flower, making up the rules as it goes along." *Henry v. INS*, 74 F.3d 1, 6 (1st Cir. 1996); see also *SKF USA Inc. v. United States*, 263 F.3d 1369, 1382 (Fed. Cir. 2001).

The Board contends that the '919 Decision controls, and that Petitioner cannot complain now because it did not seek rehearing in that case. Decision at 8. That is not the law. There is no requirement to seek rehearing of other improper decisions, and the Board "cannot justify a departure from its precedent simply by pointing to another one of its cases that departed from precedent, if that other case does not itself announce the new standard or a supporting rationale for it." *ABM Onsite Servs.-West, Inc. v. NLRB*, 849 F.3d 1137, 1147 (D.C. Cir. 2017). The '919

Decision did not purport to establish or explain any such departure. And because it is non-precedential, whatever guidance it (or the '1094 Decision) may contain cannot be relied upon by later ITC respondents.

Here, (as well as in the '919 Decision), the Board purported to follow *Fintiv*, but as will be explained in the next section, it did not. Further, *Fintiv* did not purport to change the rules or Board policy regarding ITC cases. To the contrary, *Fintiv* collected past Board decisions and explained that future panels should weigh various factors in district court cases, as they had in the past, to balance considerations of “system efficiency, fairness, and patent quality.” *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 at 5 (Mar. 20, 2020) (precedential). And certainly nothing in *Fintiv* ruled out IPRs with concurrent ITC cases or required respondent-petitioners to drop all of their IPR-eligible defenses to obtain institution. Indeed, *Fintiv* was made precedential in May of 2020, and the Board's abrupt and unwritten rule change was not until October.

* * *

Accordingly, the Decision is contrary to law. The Board should vacate and grant institution.

III. The Decision Is Contrary to *Fintiv*

The Decision legally erred because it failed to follow *Fintiv*, which does not permit, much less require, the Board to treat concurrent ITC cases in the same manner as district court cases. Rather, *Fintiv* carefully circumscribes the treatment of co-pending ITC cases, recognizing that the ITC cannot cancel patents and emphasizing the importance of patent quality. *Fintiv* at 9. Indeed, ***Fintiv* looks to**

the ITC only for factor 4. The Board erred because it ignored *Fintiv's* direction, and instead looked to the ITC proceeding where *Fintiv* expressly directed the analysis to the parallel district court case.

Starting with Factor 1, the Board legally erred because it evaluated the factor with respect to whether the ITC will stay the case, rather than solely whether the district court case is stayed, as it is here. *Fintiv* is clear on this point. *Fintiv* addresses “whether there is a parallel **district court case** that is ongoing or stayed” pending the ITC investigation, and never considers whether the ITC investigation is stayed. *Id.* at 8-9 (emphasis added). The *Fintiv* panel (and the Director) clearly understood the difference between a district court case and an ITC investigation, as *Fintiv* referred to them separately. And as the Director certainly recognized when designating *Fintiv* precedential, the ITC will not stay pending IPR. Reply at 2. Thus, as the Board previously and correctly held when applying *Fintiv*, a “stay of the [district court] proceeding allays concerns about inefficiency and duplication of efforts as it relates to [an IPR],” despite a co-pending ITC case. *Samsung Elecs. Co. v. Dynamics Inc.*, IPR2020-00499, Paper 41 at 11-16 (Aug. 12, 2020) (“*Samsung*”). Here, the Board did not recognize, much less explain why, it departed from *Fintiv* and *Samsung*.

For Factor 2, the Board legally erred by looking to the ITC (by reference to the '919 IPR) rather than the court. *Fintiv* expressly directs the Board to look at “the **court's** trial date,” not any ITC date. *Fintiv* at 9. The Board never explained its departure from *Fintiv's* express direction.

For Factor 4, the Board followed *Fintiv's* direction to evaluate the overlap

between the ITC and IPR. The Board erred, however, in its weighing of this and the other factors.

For Factors 3 and 5, any error was harmless because factor 3 favored institution and the parties are the same (factor 5), regardless.

For Factor 6 and “Other Considerations,” the Board erred because it overlooked “other circumstances” addressed in the Reply, namely public health. *Fintiv* directs the Board to consider “other circumstances ... including the merits.” *Fintiv* at 14. *Fintiv* also directs the Board to take into account “Other Considerations,” including “other facts and circumstances” that may be “unrelated to parallel proceedings.” *Fintiv* at 16.

The Board correctly found that the merits of the Petition were “relatively strong.” Decision at 9. But the Decision does not further patent system integrity because the Decision ignored Congressional mandate to eliminate this “bad patent” that “slip[ped] through” the system (*SAS Inst.*, 138 S. Ct. at 1353), and did so despite the increased risk to public health.

As explained in the Reply, the only remedy for infringement at the ITC is an order that would deprive current smokers of a less harmful alternative to conventional cigarettes, namely Petitioner's IQOS system that heats tobacco rather than burning it. “Following a rigorous science-based review,” the FDA “determined that authorizing [the accused IQOS product] for the U.S. market is appropriate for the protection of the public health.” Ex. 1032; Ex. 1031 (FDA finding that IQOS “significantly reduces the body's exposure” to harmful chemicals). Indeed, public-interest groups have expressed concern that removing

IQOS from the U.S. market will be deleterious to public health. Ex. 1019 at 002; Exs. 1020-1030.

And to be sure, Patent Owner does not have a competing heat-not-burn tobacco product favored by current cigarette smokers. Rather, Patent Owner offers only vaping systems. As a result, the Board Decision improperly incentivizes patent owner to assert bad patents at the ITC, even at the expense of public health.

When weighing the factors, the Board erred because it treated a parallel ITC case in the same manner as a parallel district court case, contrary to *Fintiv's* express guidance. The Board also impermissibly departed from the Board's precedent without explanation, relying on another IPR where the same panel also failed to "announce the new standard or a supporting rationale for it." *ABM Onsite*, 849 F.3d at 1147. In addition, the Board impermissibly and unfairly penalized Petitioner for the Office's delay, stating that the institution decision was concurrent with the ITC's evidentiary hearing. That was only so because the Board took nearly as long to simply assign a filing date as Petitioner took to prepare and file the petition and supporting evidence. Reply at 5.

* * *

Accordingly, the Board should vacate its Decision and institute review.

IV. Conclusion

For all of the above reasons, the Board should reconsider its Decision and institute review.

Respectfully submitted,

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CERTIFICATE OF SERVICE

Pursuant to 37 C.F.R. § 42.6(e), I certify that on this 18th day of February, 2021, a true and correct copy of the foregoing **Petitioner's Request for Rehearing of Decision Denying Institution and all Exhibits** were served by electronic mail on Patent Owner's lead and backup counsel at the following email addresses:

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